# MMIP

*Enhancing UK Medicines Manufacturing*

**The Medicines Manufacturing Industry Partnership position paper on Fiscal Incentives.**

## Introduction

The **Medicines Manufacturing Industry Partnership (MMIP)** is the collaboration between the Medicines Manufacturing sector and Government and supported by both the Association of the British Pharmaceutical Industries (ABPI) and the UK BioIndustry Association (BIA). Its aim is to ensure the growth of the sector and that the UK is recognised domestically and internationally as an attractive and thriving environment for medicines manufacturing.

It aims to do this by achieving:

- Investment friendly tax, IP and regulatory policies
- Connected and capable infrastructure for future industry
- An adaptive and flexible workforce with relevant skills for future industry
- An aligned medicines manufacturing industry (including Government, academia and others)
- Adaptive manufacturing technologies such as Continuous Manufacturing that meets evolving need

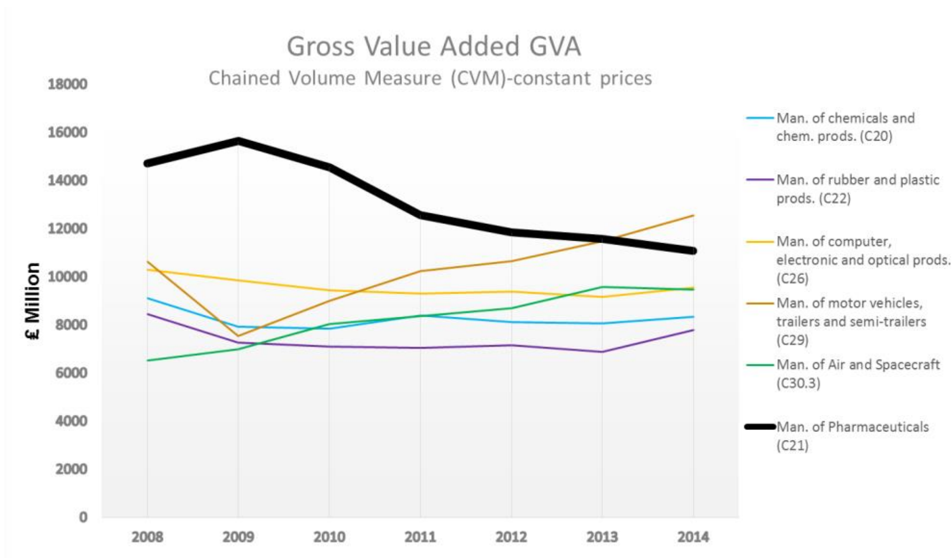
## Trend in manufacturing base

The MMIP has reviewed the health of the medicine manufacturing sector. Based on data from 2008 to 2013 from the UK Office for National Statistics (ONS) and EuroStat:

- **The overall contribution to the UK economy from pharmaceutical manufacturing has *decreased*, both in *absolute* terms and *relative* to other research intensive sectors**
- **The value added on a *per worker* basis is *much larger* than in other research intensive sectors, but this has *steadily declined* from 2009**
- **Labour productivity, adjusted by wage, is also *much larger* than in other research intensive sectors and appears *relatively stable***

As an example, Graph 1 overleaf shows how the sector leads other sectors in Gross Value Added but the total contribution is falling.

GRAPH ONE




**Tax as a driver for investment decisions.**

The UK has lost out on a number of incremental and new medicine manufacturing site opportunities to other countries such as Ireland and Singapore. In discussion with a number of parties, including UKTI, the competitiveness of the UK tax and fiscal environment is cited as a key factor.

We welcome the Government ‘s drive to ensure that the UK has the most competitive tax system in the G20. However, the statutory tax rate alone does not secure the UK as a winning location, as effective tax rates rather than headline rates are relevant to investment decisions. Initiatives such as R&D tax credits address the costs of development of technologies and the patent box addresses the location of IP. However, in the case of manufacture and the need to address falling GVA, these tax reliefs do not address the high capital expenditure cost of manufacturing sites.

In recent years the UK has suffered from an uncompetitive tax regime for capital expenditure, which particularly affects capital intensive sectors such as medicine manufacture. The UK offers tax deductions for capital expenditure through capital allowances with rates that compare poorly to other tax regimes and to accounting rates of depreciation.

**Impact of UK capital allowance rates:**

The table below, from the OUCBT tax database, shows the UK ranking against the rest of the G20 by both statutory rate and the present value of capital allowances, whereas the UK ranks first when considering the statutory headline rate, it ranks last when considering the present value of capital allowances.

G20 Tax Rates (2015)

| Position | Country | Statutory rate | Country | Present value of capital allowances |
|---|---|---|---|---|
| 1 | UK | 20.00% | Korea | 73.77% |
| 2 | Russia | 20.00% | France | 73.00% |
| 3 | Saudi Arabia | 20.00% | South Africa | 70.85% |
| 4 | Turkey | 20.00% | Russia | 70.53% |
| 5 | Korea | 22.00% | Indonesia | 68.78% |
| 6 | China | 25.00% | Turkey | 67.46% |
| 7 | Indonesia | 25.00% | Italy | 66.50% |
| 8 | Canada | 26.75% | Mexico | 65.59% |
| 9 | South Africa | 28.00% | China | 65.59% |
| 10 | Australia | 28.50% | Australia | 64.97% |
| 11 | Mexico | 30.00% | Canada | 64.78% |
| 12 | Italy | 30.04% | Brazil | 62.77% |
| 13 | Germany | 30.95% | USA | 62.00% |
| 14 | India | 33.99% | India | 61.70% |
| 15 | Brazil | 34.00% | Germany | 61.14% |
| 16 | Argentina | 35.00% | Saudi Arabia | 60.66% |
| 17 | Japan | 36.64% | Japan | 56.72% |
| 18 | France | 38.00% | Argentina | 54.56% |
| 19 | USA | 40.46% | UK | 45.53% |

Statutory = Corporate rate

For companies making investment decisions, modelling the cost of siting new manufacturing capability is a key part of that decision making process. A poor UK ranking acts as a strong disincentive to UK investment.

In overview the annual rates of capital allowance are as follows:

a) Relief for purchasing or building a unit for manufacturing activity 0%
b) Relief for fixtures added to building (lighting / airconditioning) 8% reducing balance
c) Relief for plant and machinery 18% reducing balance

The result is that a company building a manufacturing facility in the UK will obtain no tax relief on a large part of its capital spend and a non-commercial rate of relief on the remainder.

Incentives such as Enterprise Zones and in limited circumstances Enhanced Capital Allowances, provide relief only in particular locations or on particular assets, and on qualifying expenditure, i.e. categories b and c above. They therefore have a very limited impact on decision making in this sector.

RDA's at 100% of qualifying expenditure (categories b. and c. above) are available where assets are used for qualifying R&D and these are not usually relevant to the manufacturing activity itself. For combined R&D and manufacturing facilities, the manufacturing element usually represents the larger proportion, so that the UK's poor ranking on manufacture drives investment elsewhere.

**Potential solutions**

Increasing the availability and / or rate of capital allowances would address the UK's disadvantageous position. This could be via a number of routes:

i. Reintroducing allowances for limited classes of industrial buildings (eg manufacturing units).
ii. Increased rates for assets used in medicine manufacture.
iii. Increased rates for assets used in knowledge intensive industries, using the newly introduced UK tax definition.
iv. Reclassification of certain assets employed in medicine manufacture, for example from buildings to fixtures or plant.

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